



INSTITUTE
FOR ECONOMIC RESEARCH
AND POLICY CONSULTING

UKRAINE: CONNECTING WITH EU

Connectivity in EU's Wider Eastern Neighbourhood

*Presentation is based on: **Ukraine's exports in goods: key developments.***

By Veronika Movchan, Institute for Economic Research and Policy Consulting, Research Director (research in progress); **Ukraine's fight against corruption: the economic front. Economic assessment of anticorruption measures implemented 2014-2018.** Analytical report, and **research materials** of the National Bank of Ukraine.

By : Ihor Burakovsky et al., 2018

VIENNA, November 29, 2018

Connectivity: short theory

Theory:

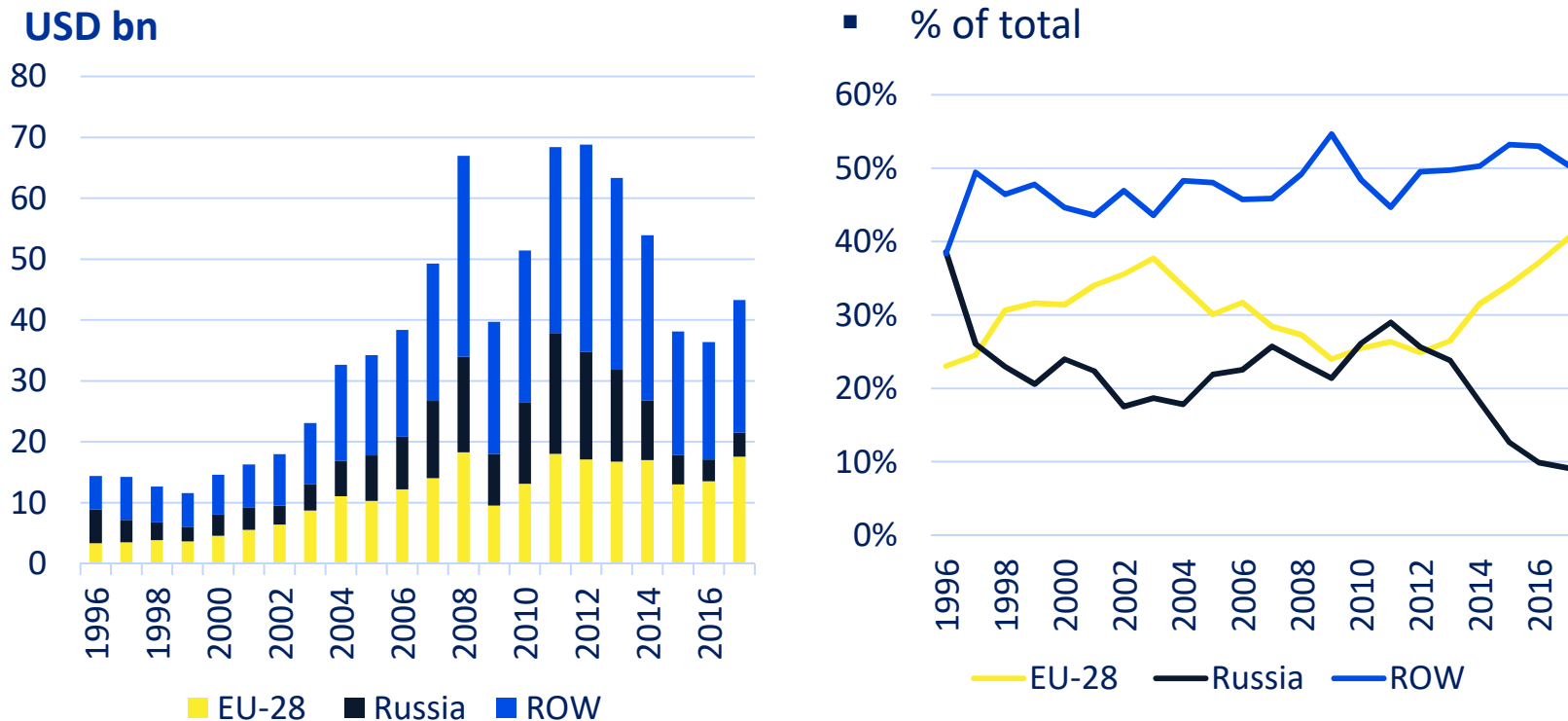
1. Connectivity as a concept: it refers to a country's ability to effectively connect to others within a particular network. (Global Connectivity and Export Performance Jean-François Arvis and Ben Shepherd. World bank. Economic Premise, March 2013, Number 111, <http://siteresources.worldbank.org/EXTPREMNET/Resources/EP111.pdf>)
2. Connectivity as a reality: globalization promotes connectivity.
3. Connectivity as a challenge: reaping the fruits of connectivity requires strong national institutional capacity and intensive international policy coordination.

Connectivity dimensions:

1. Political dimension: rules, institutional setting and scope of policy coordination
2. Economic dimension: economic links and its sustainability in short, medium and long-term perspective
3. Public (social dimension): "external" preferences of the society (whom we like whom we don't like)
4. Institutional dimension: "technical" norms and rules of interaction in different fields

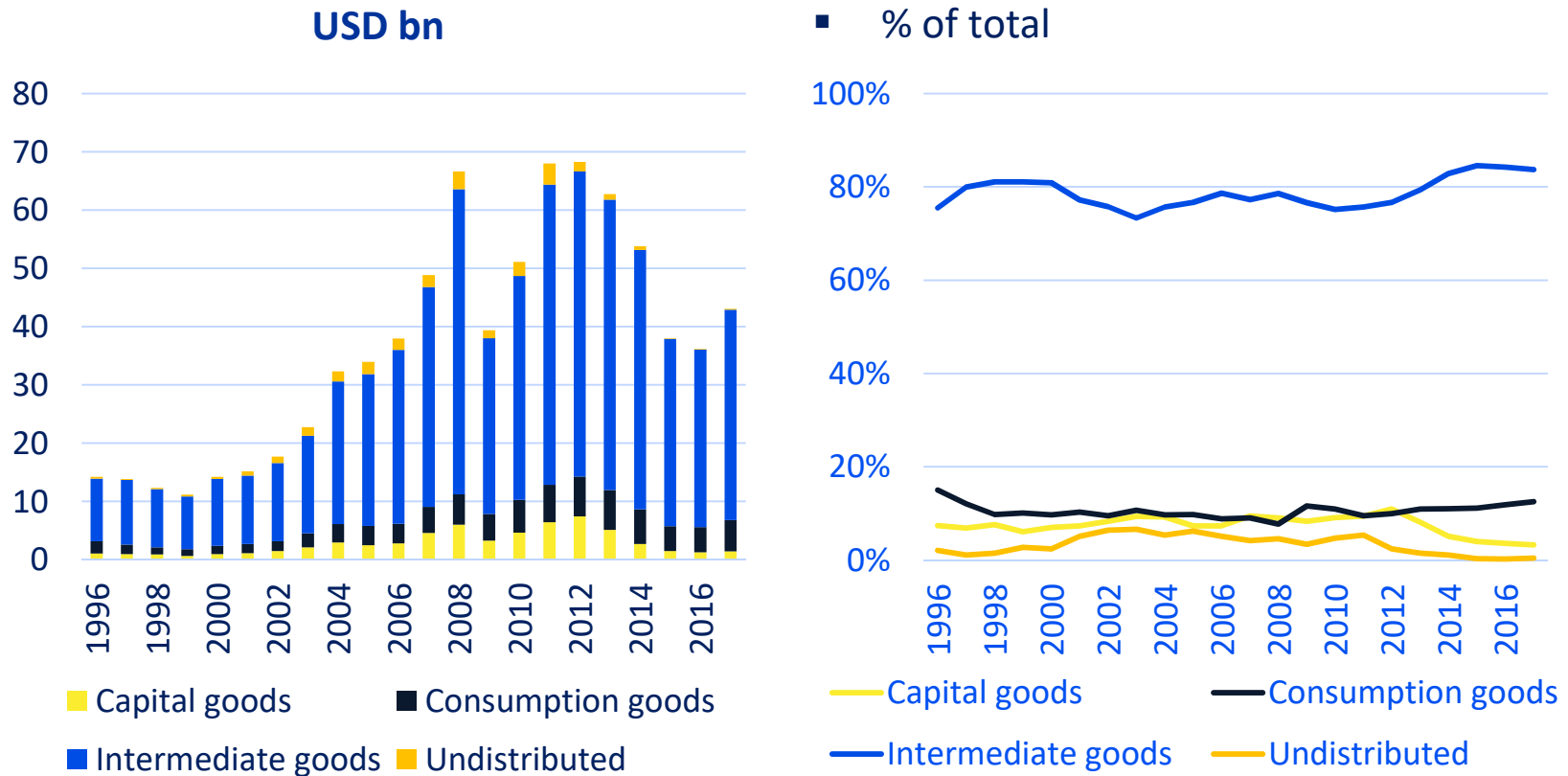
Ukraine's Trade: Export Reorientation in Progress

Ukraine's export in goods by destination



- In 2017, Ukraine exports to the EU was USD 17.5 bn (**highest since 2011**) and 41% of total (**absolute max since independence**)
- After steep reduction, exports to Russia stabilized at USD 4 bn and 9% of total. Still, Russia remained the largest export destination among individual countries

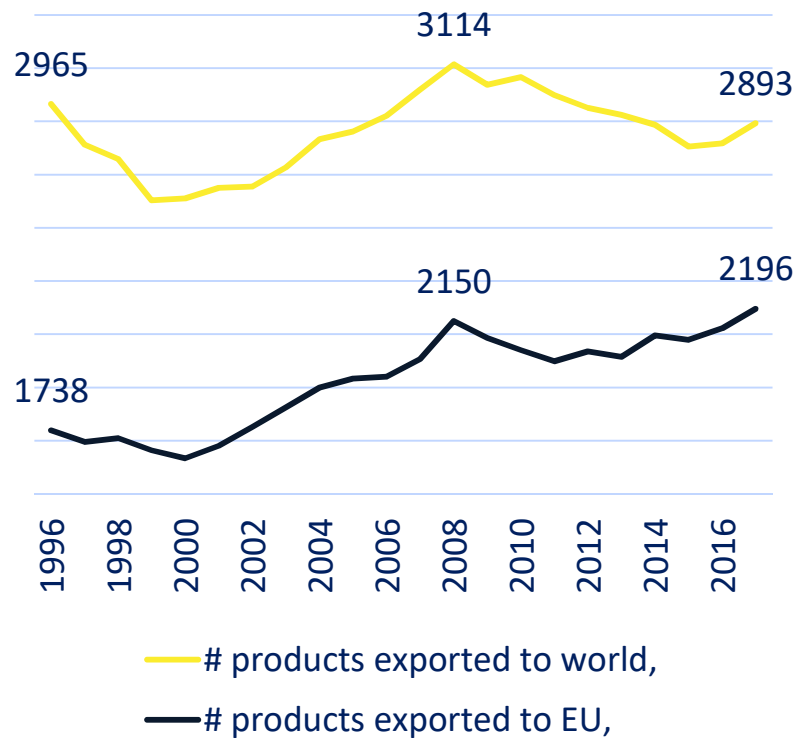
Ukraine's total exports by end use



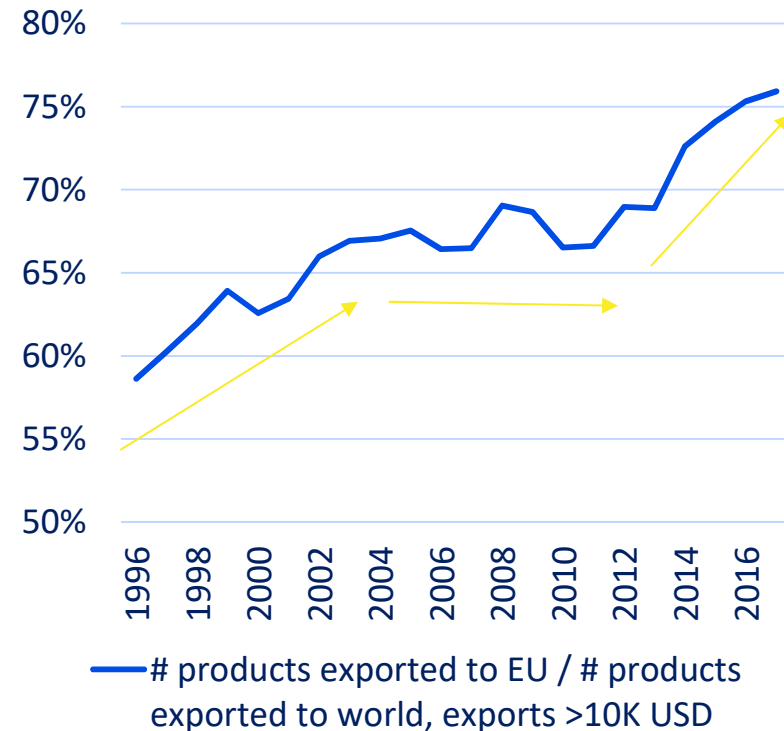
- Intermediate goods, i.e. **goods used as inputs in other production processes, dominate** Ukraine's exports. In 2017, their share was 84% of total exports
- Consumption goods is the second largest category – 13% in 2017
- Importance of capital goods exports dropped alongside with reduction in exports to Russia

Exports to the EU: variety

Number of products, 6-digit HS



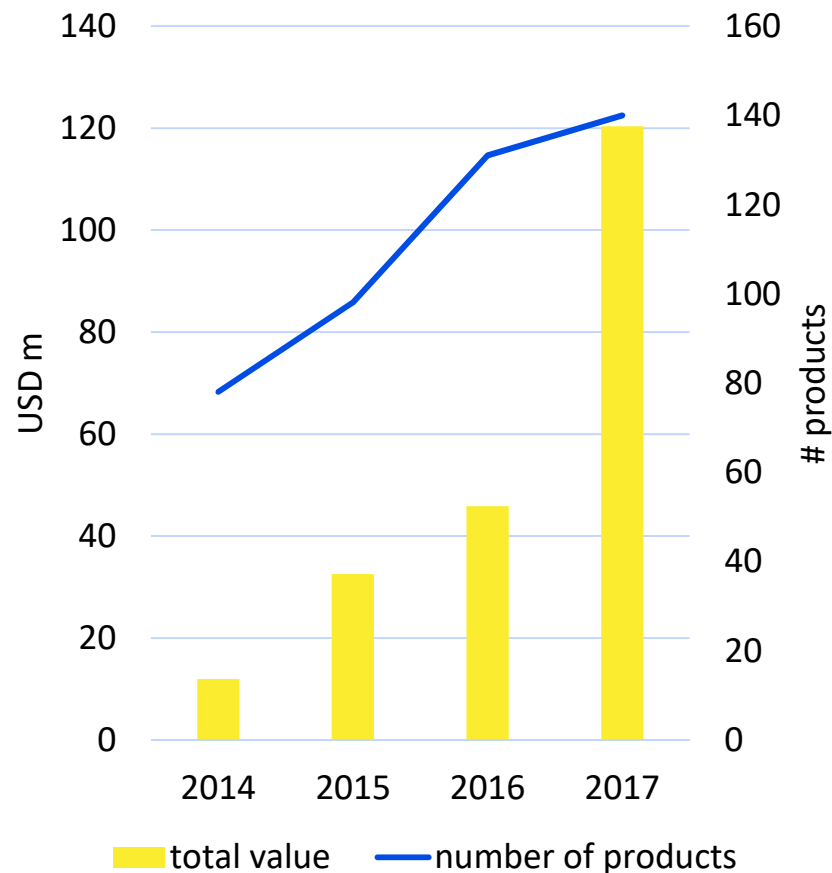
■ % share of product variety exported to world



- **Product diversify of exports has increased** noticeably since the DCFTA launch
- Compared to 2013, in 2017 Ukraine exported 181 products more, while variety of its exports to the ROW shrunk by 173 products

Exports to the EU: new products

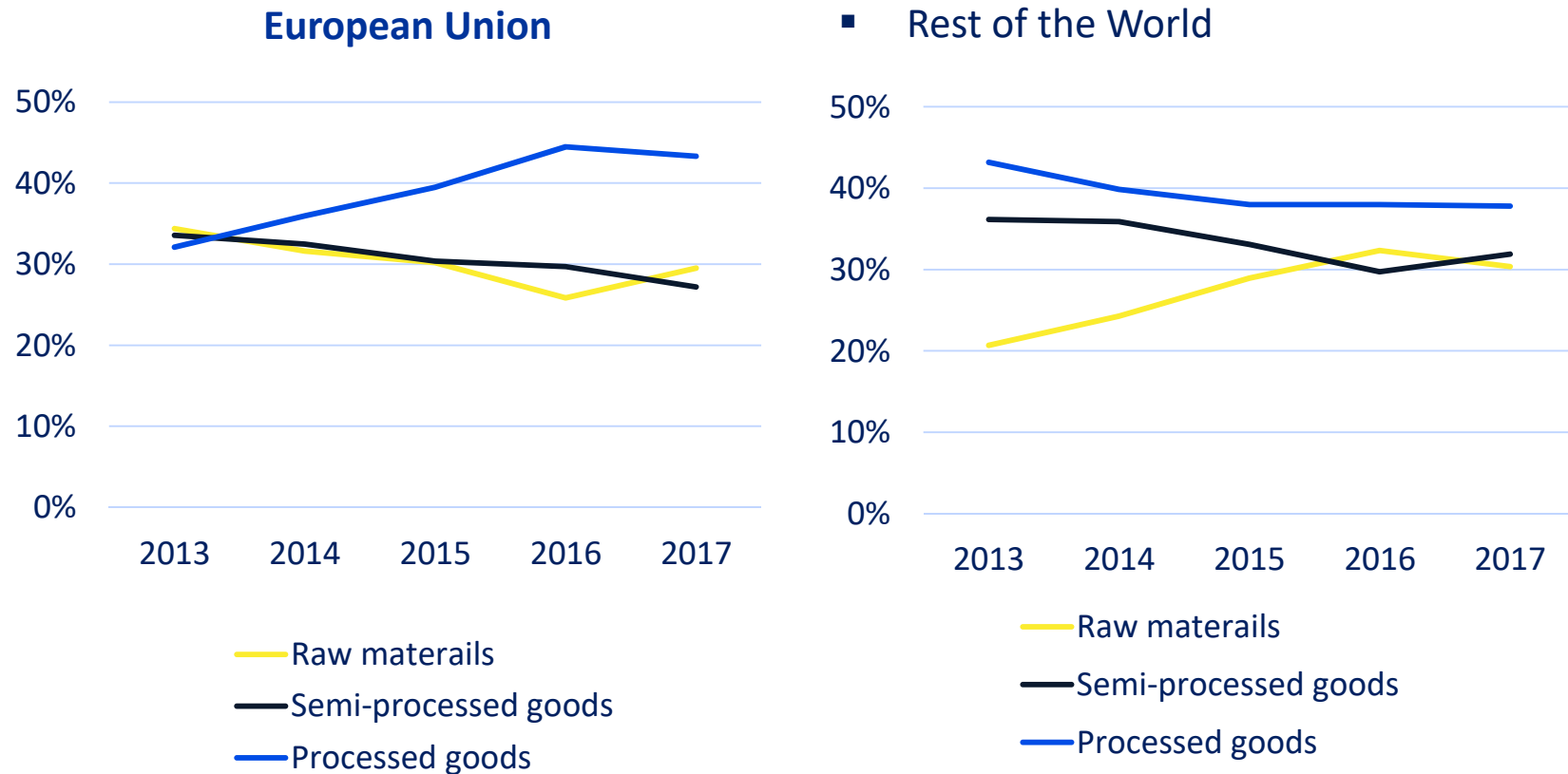
New products* on the EU market



- In **2014-2017**, Ukraine started to export **265 new products***, not exported to the EU in 2005-2013
- Average duration of exports – 2 years
- 15 products were exported 4 years, their value in 2017 – USD 10 m
- Largest exports in 2017:
 - Poultry cuts – USD 74 m (3 years, +245%)
 - Butter – USD 14 m (2 years, +448%)
 - Lard – USD 3 m (4 years, +523%)
- New machinery & equipment exports:
 - Image projectors – USD 0.8 m (2 years, +7324%)
 - Washing machines – USD 0.3 m (3 years, +411%)
 - Snowmobiles – USD 0.2 m (1 year)

Note: * product is defined as new if no exports >10K USD in previous period(s)

Exports to the EU by level of processing



- Importance of **finished products in exports to the EU increased** from 32% in 2013 to 43% in 2017, while importance of raw materials exports reduced
- Key finished products exported to the EU are sunflower oil and electric machinery

Exports to Russia: key products

YEAR 2013

	USD m	% total	rank
Aluminium oxide (excl. artificial corundum)	579.0	4%	1
Bars & rods of iron/non-alloy steel	498.3	3%	2
Diesel-electric locomotives	468.5	3%	3
Tank wagons & the like, railway/tramway	396.0	3%	4
Turbo-propellers, of a power >1,100kW	387.7	3%	5
Cheese	314.1	2%	6
Self-discharging vans & wagons	294.1	2%	7
Pebbles/gravel/broken/crushed stone	292.1	2%	8

YEAR 2017

	USD m	% total	rank	% change 2017/2013
Aluminium oxide (excl. artificial corundum)	467.9	12%	1	-19%
Uranium; natural uranium and its compound	130.1	3%	2	-41%
Turbo-propellers, of a power >1,100kW	113.0	3%	3	-71%
Iron or non-alloy steel; U sections	99.8	3%	4	-61%
Iron or non-alloy steel; (not in coils), flat-rolled	81.9	2%	5	-38%
Railway or tramway parts, axles and wheels, and parts thereof	76.9	2%	6	-68%
Iron or non-alloy steel; flat-rolled, plated or coated with zinc	74.0	2%	7	-18%
Steel, alloy; flat-rolled, hot-rolled, not in coils	61.6	2%	8	-51%

Reorientation away from Russia's market

- In 2012, Ukraine exported* 2153 products (HS 6 digits) to Russia
- Out of them, in 2017:
 - Ukraine **still exports (somewhere) 2073 out of 2153 products (96%) exported to Russia**. But value of their exports dropped by 41% as compared with 2012
 - Ukraine **ceased exporting 82 products**. Their export value in 2012 was USD 939 m, including:
 - Petroleum oils and oils obtained from bituminous minerals – USD 321 m (2% of exports to Russia)
 - Rail locomotives – USD 274 m (2% of exports to Russia)

*Note: * exports is defined to exist if it is >10K USD*

Labour migration

Where Ukrainians go

1. Current estimates: **between 1.3 and 2.3 mil** of Ukrainians work abroad today (National bank of Ukraine estimates).
2. **Nearly 40% of Ukrainian labour migrants (ULM)** work in Poland.
3. In the short term Poland will host **200-300 thou Ukranian labour migrants** annually (National Bank of Poland estimates).
4. 2012: more than **40 % of ULM worked in Russia and nearly 15%** in Poland. In 2017 the situation has dramatically changed: **almost 40% of ULM went to Poland and nearly 25 to Russia** (National bank of Ukraine estimates, National Bank of Poland estimates).
5. Regional pattern of ULM changed: three years ago residents of Western Ukraine dominated while now the share of residents of Eastern Ukraine increased.
6. Gender pattern: **70% males , 35% are under 30.**
7. Economic effect of labour migration: during last two years Ukraine lost 5-8% of workforce due to migration (negative impact upon potential GDP).
8. Private transfers: **2015 – 7 bn USD, 2016 – 7.5 bn USD, 2017 – 9.3 bn USD.**
9. Where the money (private transfers) came from in 2017: **Russia – 14,1%, Poland – 33.6%, other EU – 27.8%, USA and Canada – 8.1%, other countries - 16.3%.**
10. In the coming 2-3 years labour migration from Ukraine will increase but **in the medium term it will start to decrease** (National bank of Ukraine estimates).

Source: <https://bank.gov.ua/doccatalog/document?id=65006045>
https://bank.gov.ua/control/uk/publish/printable_article?art_id=66326691&showTitle=true
<https://bank.gov.ua/doccatalog/document?id=66364144>

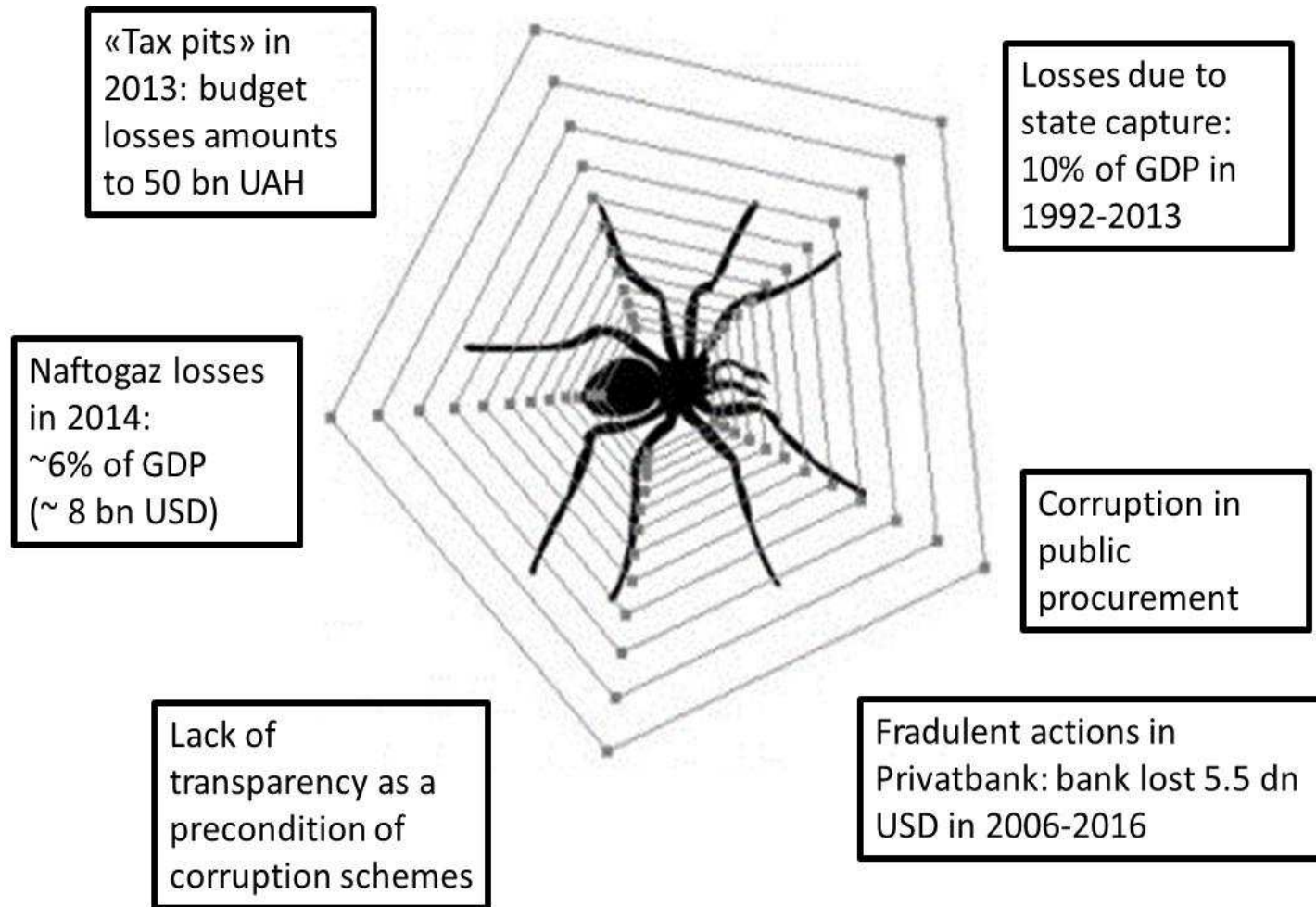
Taking the challenge of connectivity

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1. **Analysis**. Proper understanding of the drivers of connectivity, as well as factors affecting the nature, scope, “natural” limits and pattern of connectivity.
2. **Policy**. How to react to the challenge of connectivity under current external and internal environment (what to do and what tools to employ).
3. **Precondition**. Developing and strengthening Ukraine’s institutional capacity.

Public governance: Fight Against Corruption

Corruption heritage



Our approach

1. Traditionally corruption is broken into three functional types:

a) Political corruption –the manipulation by politicians with political decisions, rules, procedures and institutional activities in the area of resource allocation and financing, and also abuse by politicians of their powers to retain and increase their authority, assets and private gain.

b) Large-scale (grand) corruption - actions committed by the top level officials to obtain the benefit at the expense of society by means of exercising the distortive influence on the government policy and the government functioning mechanisms at the central (national) level

c) Small-scale, or petty, corruption is a daily abuse of powers by the mid and low-level officials in the process of their interaction with citizens seeking to solve personal problems.

We restricted ourselves to analysis of the measures aimed to overcome, mainly, political corruption.

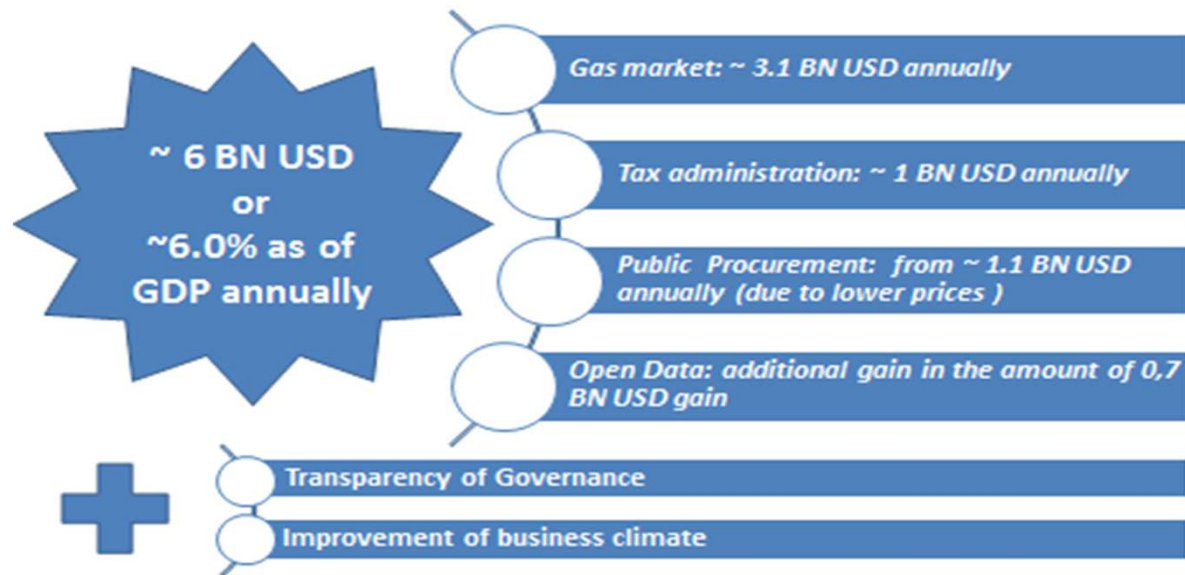
2. Two main driving forces to lower corruption levels:

- **Narrowing corruption opportunities through reforms** in different sectors.
- **Creation of efficient corruption fighting institutions**

Our attention has been focused on the first line of changes, brought about by reforms aimed at enhancing transparency and openness in the work of the government and increasing the efficiency of public administration.

A limited number of measures were chosen in the sectors considered the most corrupted ones

Economic effect of anticorruption measures undertaken in 2015-2017



Conclusions:

1. Even with the above-mentioned positive achievements, the fight against corruption has only just started.
2. Double challenge - to prevent the roll-back of the reforms that have brought about these achievements and to further strengthen the process of fighting corruption.

Thank you!

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